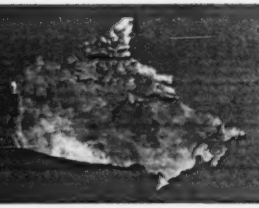

Canadian Natural Gas

›› Monthly Market Update

October 2010

›› Oil and Gas Policy, Analysis and Regulatory Affairs Division
Petroleum Resources Branch
Energy Sector

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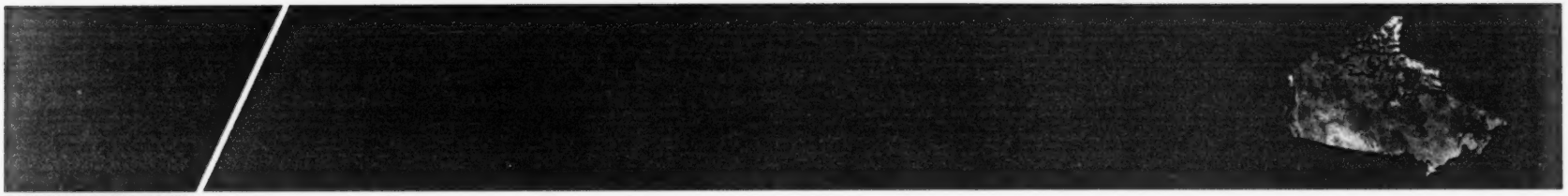

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Foreword

The Canadian Natural Gas: Monthly Market Update is a monthly analytical paper prepared by the Petroleum Resources Branch of Natural Resources Canada. The report provides the most recently available data on natural gas prices and related market fundamentals.

Please direct any comments or questions to Stacey Power at (613) 992-1023, or by email at Stacey.Power@nrcan.gc.ca

Executive Summary

As we look ahead to the heating season, it is expected that the colder weather will bring with it an increased demand for natural gas for space-heating. Compared to September, the number of heating degree days (HDD's) in October rose by 147%. However, 2010 has been an unusually warm year, and the number of HDD's is actually down 17% from October 2009. Moreover, Environment Canada's 3 month outlook suggests that the warmer than normal weather will continue in most parts of the country for the remainder of 2010.

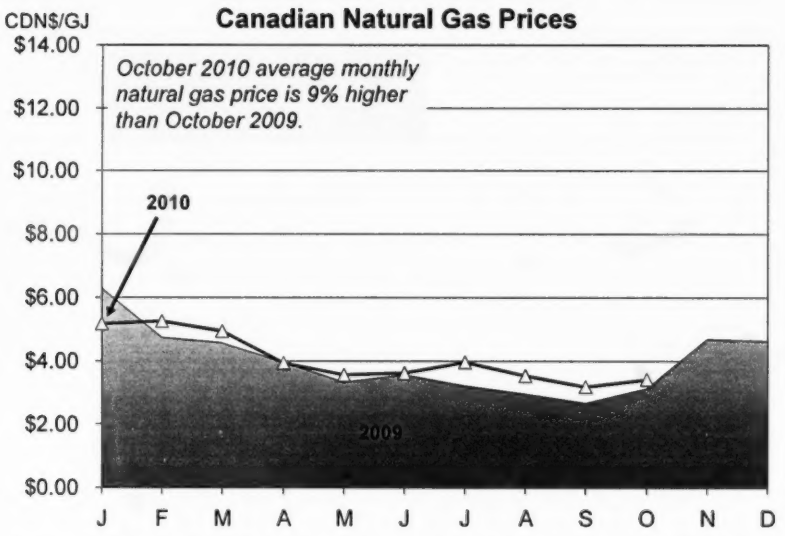
The Alberta price for natural gas delivered under 30-day contract for the month of October was $3.41/GJ, up 7% from last month and up 9% compared to October 2009. Although prices are starting to recover, the warmer weather, combined with storage levels that are approaching 5 year maximum levels, will continue to put downward pressure on the price of natural gas.

Natural Gas Market Fundamental	Value	Percentage Change	
		Month 2010 vs. Month 2009	Current Month vs. Previous Month
Prices, CAN $/GJ (Oct-10)	3.41	+9%	+7%
Heating Degree Days (Oct-10)	282	-17%	+147%
Production, Bcf (Aug-10)	420	+1%	+3%
Sales, Bcf (Aug-10)	157	+10%	+5%
Exports, Bcf (Aug-10)	293	+2%	+6%
Imports, Bcf (Aug-10)	45	+8%	-4%
Storage, Bcf (Oct-10)	596	0%	+10%
Drilling, wells (Oct-10)	720	+251%	0%

Note: GJ: Gigajoule; Bcf: Billion Cubic Feet

Sources:
- *Crude Oil and Natural Gas (Preliminary)*, Statistics Canada
- *Natural Gas Transportation and Distribution, 55-002*, Statistics Canada
- *Supply and Disposition of Crude Oil and Natural Gas, 26-006*, Statistics Canada
- *Drilling Highlights*, Daily Oil Bulletin website: www.dailyoilbulletin.com
- Canadian Natural Gas Focus, GLJ Energy Publications Inc.
- *Natural Gas Storage Survey*, Canadian Enerdata Ltd.
- *Natural Gas Export Statistics*, National Energy Board website: www.neb-one.gc.ca
- Canadian Gas Association, website: www.cga.ca

Figure 1

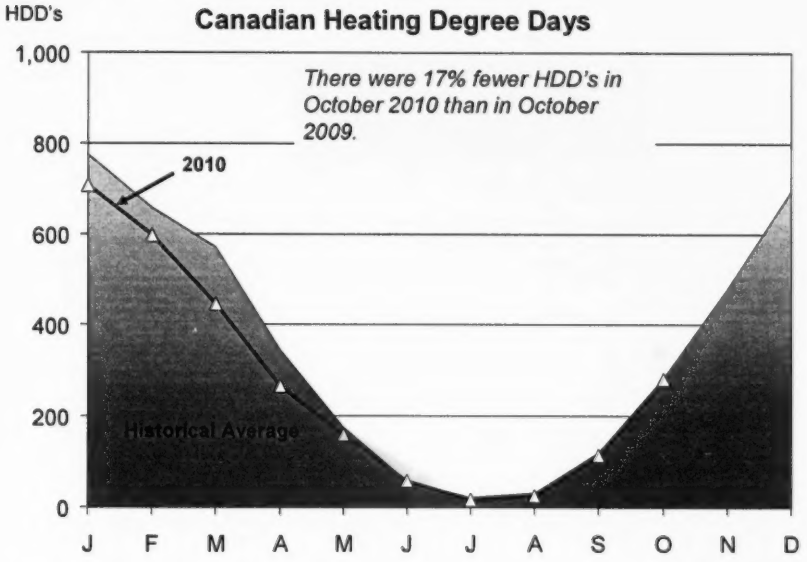


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market, a.k.a. AECO . The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

AECO natural gas prices averaged CDN $3.41/GJ in October 2010, an increase of 7% from the previous month and an increase of 9% from October 2009.

Figure 2



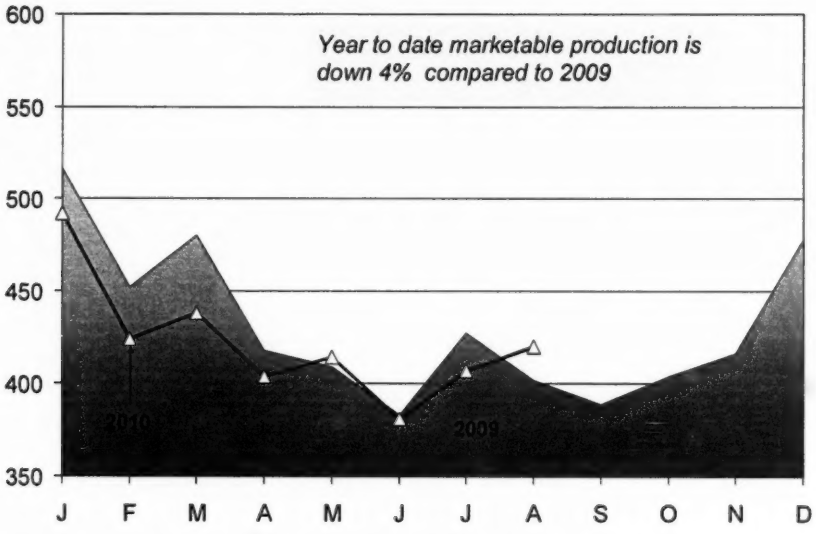
Source: Canadian Gas Association, NRCan

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If a winter is unusually cold, demand for space heating will respond accordingly and natural gas prices will tend to be stronger. However, during a mild winter, natural gas demand for space heating will be weaker, which will tend to moderate prices.

In October 2010 there were 282 HDDs, 17% less than October 2009, but 147% more than September 2010. October 2010 averaged the historical amount of HDDs.

Figure 3

Canadian Natural Gas Production



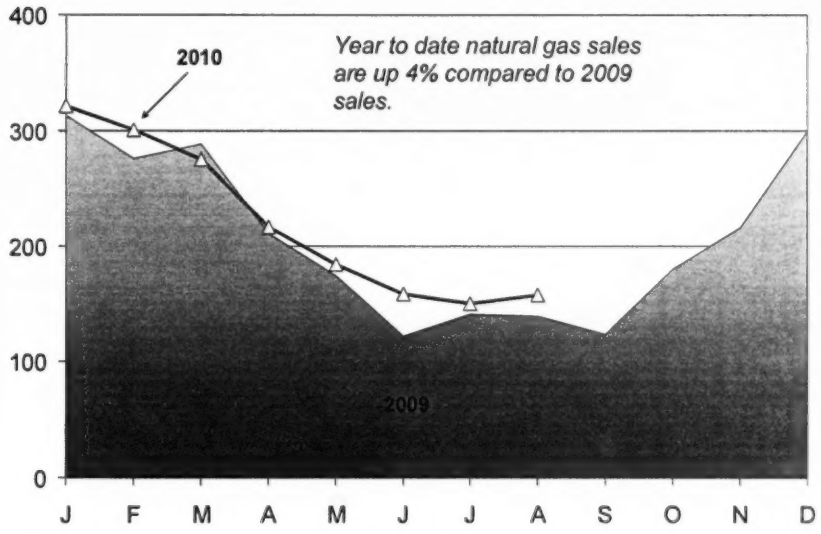
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

Marketable natural gas production in August 2010 was 420 Bcf. Production levels were 3% higher than the previous month, and 1% higher than the previous year.

Figure 4

Canadian Natural Gas Sales



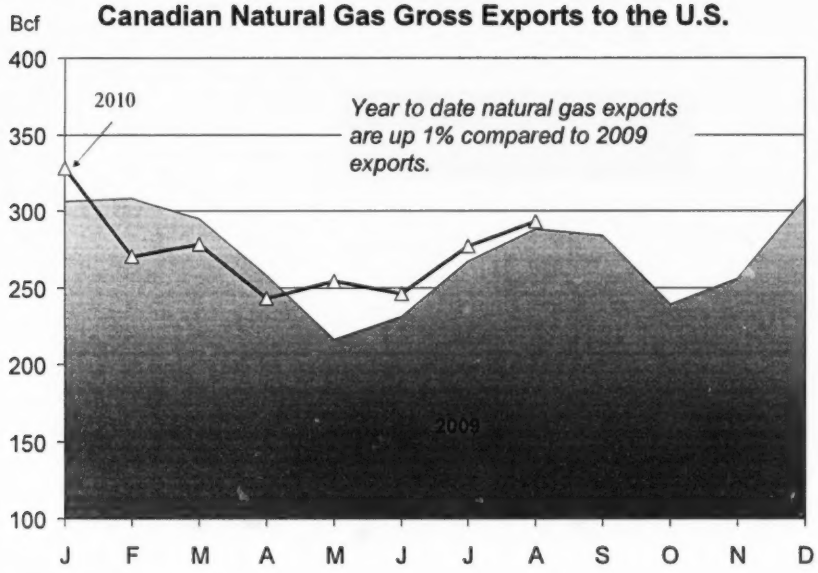
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in August 2010 were 5% higher than the previous month and 10% higher than sales in August 2009.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



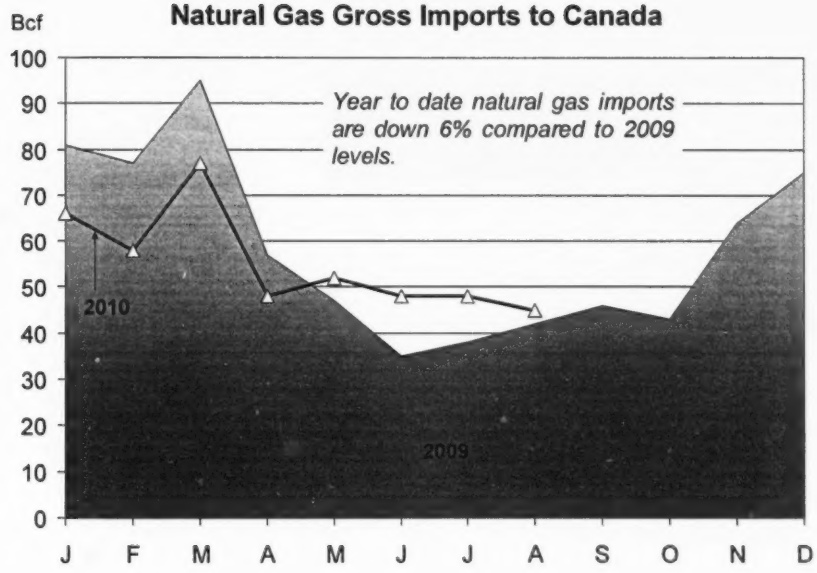
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met mostly by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In August 2010 natural gas exports to the U.S. were 293 Bcf. This is a 6% increase from the previous month and a 4% increase from the same time last year.

Figure 6

Natural Gas Gross Imports to Canada



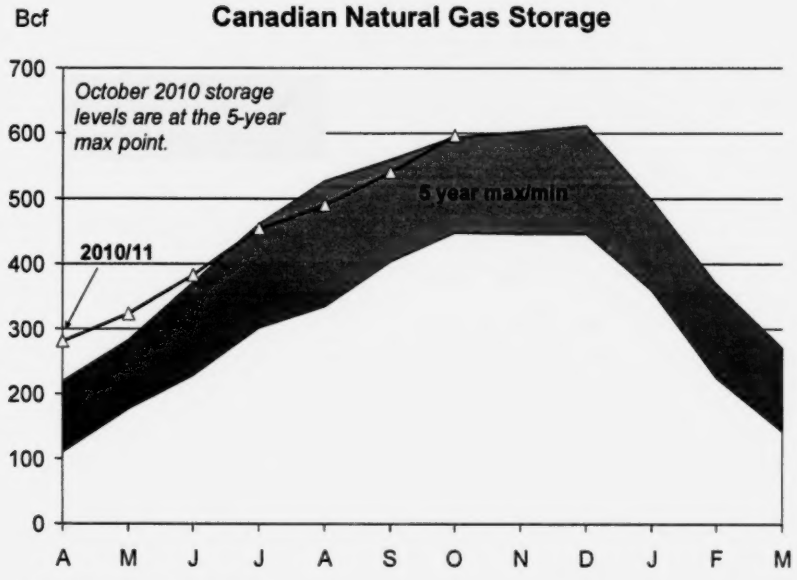
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In August 2010, natural gas imports to Canada were 45 Bcf, 4% less than the previous month, but 8% more compared to August 2009.

Figure 7

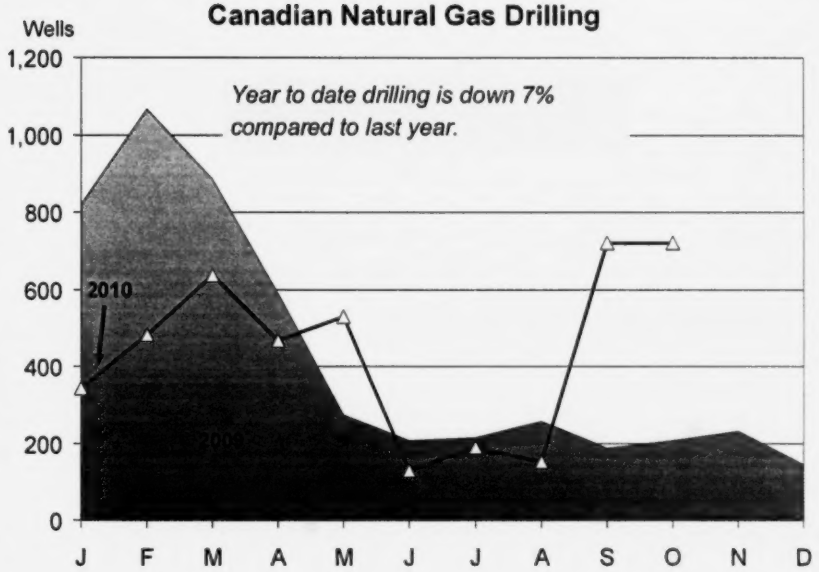
Canadian Natural Gas Storage



Source: Canadian Enerdata

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 7 illustrates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories increased by 55 Bcf from September to October 2010. Storage inventories in October 2010 are unchanged from October 2009 levels.

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

720 natural gas wells were drilled in October 2010, a 0% change from the previous month, but a 251% increase from the previous year.